

THE LIGHTRAILCONNECT MARKET REPORT

FOURTH QUARTER 2011

Light Rail Corridor

Phoenix - Tempe - Mesa
(.25 miles radius from light rail stations)



Q4 2011 Light Rail Market Report

Metro Phoenix (Phoenix-Tempe-Mesa)

Scope and Overview

This report analyzes results of real estate activity within a quarter-mile of each light rail station in the Phoenix-Tempe-Mesa corridor, also known as ‘Transit Oriented Development’ or TOD.

The Phoenix-Tempe-Mesa metro **light rail corridor** is comprised of an initial 28 Stations, extends 20 miles in length and was built at a construction cost of \$1.4 Billion. Service began for the public in December 2008. Currently two extensions are planned, both approximately 3 miles in length that will extend the line in each direction. The first project is in Phoenix at the North end, and the second extending the South end to downtown Mesa. The Phoenix extension will be paid for by the City of Phoenix and is currently on hold due to City budget issues; the Mesa extension is proceeding forward and will be paid for by a combination of Federal funds and Proposition 400 half-cent sales tax money.

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Definition and Terms

Light Rail Corridor: The area measured by a 0.25 mile radius from a light rail station. Planned track extensions in Mesa and Phoenix are not included until the tracks are built and in service.

Net Absorption: The net change in occupied space over a given period of time.

Submarkets: This report provides information on the three submarkets in Phoenix, Tempe and Mesa in the light rail corridor.

Vacancy Rate: A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory. ‘Under construction space’ generally is not included in vacancy calculations.

Vacant Space: Space that is not currently occupied by a tenant, regardless of any lease obligation that may be on the space.

Rental Rates: The annual costs of occupancy for a particular space quoted on a per square foot basis.

Class A: A classification used to describe buildings that generally qualify as extremely desirable investment-grade properties and command the highest rents or sale prices compared to other buildings in the same market.

Class B: A classification used to describe buildings that generally qualify as a more speculative investment, and as such, command lower rents or sale prices compared to Class A properties.

Class C: A classification used to describe buildings that generally qualify as no-frills, older buildings that offer basic space and command lower rents or sale prices compared to other buildings in the same market.

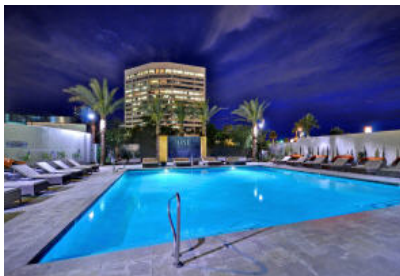
Residential Housing

Phoenix reported 23 **single family detached** (SFD) homes sold in Q4 within a quarter-mile radius of the light rail stations. This is flat from the number of 24 homes that sold in Q3 of this year. The market activity is increasing in the Phoenix metro area the last several quarters. The **Average Sale Price** increased slightly to \$142,214, up from \$131,092 in the previous quarter; this average size of 1,746 SF calculates an average price of \$81/SF. **Average Time on Market** for homes sold was 89 days. The most expensive house sold in Q4 2011 was located near the Encanto/Central Ave Station at 2032 N Alvarado Road in Phoenix. Sales Price was \$610,000 for 5 bedrooms, 3 bathrooms and 3,567 square feet, built in 1928 in the Alvarado Historic District. Of these 23 single family detached homes, 13 were bank owned, none were traditional sales and 6 were short sales.

The 4th quarter reported **22 condo/loft** sales. This is a change in the number of sales over the last 3 consecutive quarters (down from 59 in Q3, 62 in Q2/11, 91 in Q1/11). The average sales price reported \$227,189 (\$140/SF). The average unit size was 1,465 SF and the time on market was 134 days for these sold units. The highest selling condo was a penthouse suite at 1 Lexington Ave that sold for \$915,000 (\$322/SF) and has 2,846 SF, 3 bedrooms and 3.5 bathrooms. Eleven condos sold at One Lexington Avenue Condos, three condos at Pierson West.

Of these 22 condo/loft sales, 10 were traditional, 7 were lender owned, and 4 were short sales, and one was HUD owned. In this condo market we are reporting that a majority of sales are traditional sales.

At the end of the 4th quarter there were 18 condo/loft units for sale which translates into a one month supply on the market. Some condos have been pulled off the market and converted to apartment rentals decreasing the supply.



1 Lexington Ave, Phx



Landmark at 4750 N Central, Phx

In **Tempe**, 4 **SFD houses** sold in Q4 with an average price of \$83,750 and an average size of 1,358 SF and a price of \$65.74/SF. Average time on market was 100 days. These numbers were slightly lower than last quarter where the average home sold for \$90,491 (\$78.14/SF) was 1,547 SF in size and dwelled 87 days on market.

Four **townhouses/condos** sold with the average sales price of \$124,500, down from the previous average of \$135,780. The average cost was \$115/SF and the average condo size was 1,095 square feet. The average time to sale for these homes dropped to 53 days. Tempe's top condo sale for Q4 near the light rail was at 154 W 5th St at Hayden Square. This unit sold for \$219,000 (\$172/SF); it has 3 bedrooms, 3 bathrooms and reports 1,273 SF. Two units sold were traditional sales, two were short sales. Tempe currently has 7 condos/townhouses for sale, mostly at the Lofts at Orchid House.

Mesa reported no **SFD houses** sold near the only current Mesa Station (Sycamore & Main St.) Mesa currently has no condo complex near the only station. Plans are underway to extend the Mesa light rail line an additional 3.1 miles east to Mesa Drive over the next several years.

Multi Family

Apartments within .25 miles of a light rail station recorded only one sale in the quarter.

Light Rail Apartments Sold in Q4/11						
Property Address	Name	City	units	Sales Price	Price/unit	Sale Date
1030 N 3 rd St	University Place	Phoenix	48	\$1,250,000	\$26,042	10/19/2011

Land

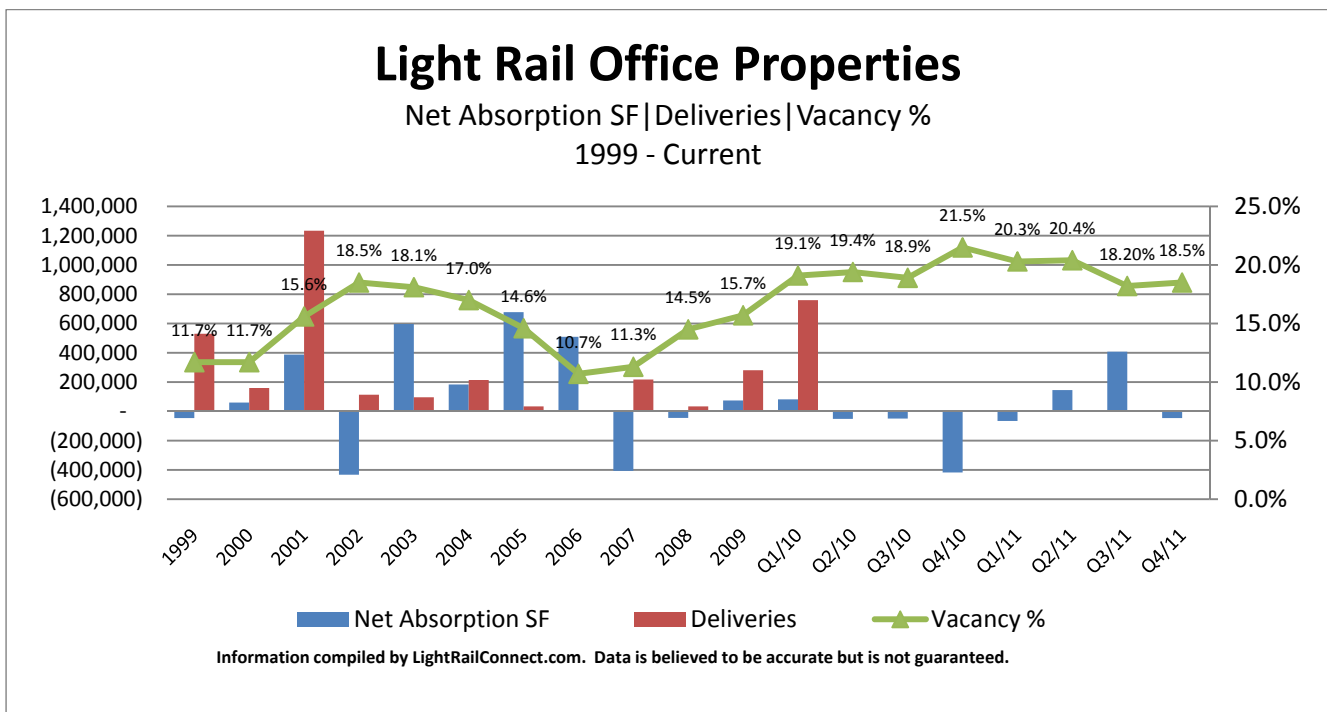
Five land sales were recorded in the light rail corridor in Q4 within a quarter mile of a station. Prior to this in Q3/11: three sales; Q2/11: six transactions; Q1/11 also had six sales; Q4/10 one sale transaction. The buyer is Tempe Student Housing for the Apache Blvd property intends to develop a 279-unit, 905 bed student housing project for the ASU campus, including a 7-story, mixed-used residential-retail structure and a 948 space parking structure. The Buyer on the SW Indian School parcel and also the property at NE Indianola Av is eBay, Inc, which has not disclosed development plans. The buyer on 800 N 1st Ave is a private REIT and has not disclosed any plans. The property at 802 N 4th Ave was an REO sale and purchased fully improved parcels to construct a multi-family project.

Light Rail Land Sold in Q4/11						
Location	Lot Size	Sale Price	\$/SF	Sale Date	Conditions	
919-1005 E Apache Blvd, Tempe	6.07 ac	\$6,575,000	\$24.87	11/01/2011	assemb; redev	
SW Indian School & 3 rd St, Phoenix	1.61 ac	\$2,924,184	\$41.81	10/13/2011	assemblage	
800 N 1 st Ave, Phoenix	1.68 ac	\$1,400,000	\$19.18	10/05/2011	redevelopment	
802 N 4 th Ave, Phoenix	.72 ac	\$650,000	\$20.72	12/19/2011	REO sale	
NE Indianola Ave & 2 nd St, Phoenix	.54 ac	\$360,618	\$15.22	10/13/2011	assemblage	

The largest two parcels are listed at the Sycamore & Main Street Station in Mesa for \$12-\$16 per square foot, with the land size at 6.85 and 6.08 acres respectively.

Office Market

The light rail corridor office **market vacancy** increased to 18.5% in the 4th quarter of 2011. This compares to 18.2% for the previous quarter's vacancy rate. Vacancy rates in the light rail corridor have been on a steady increase since 2005 when the market experienced a drop. Before then, the vacancy rate had decreased to 17% for 2004. The highest vacancy rates for all light rail corridor submarkets can be found in Phoenix at 19%. Tempe reported a flat vacancy rate at 15.4% in Q3/2011 and in the current quarter. The lowest of the submarkets is Mesa (which does not represent much office space) at a slight increase to 7.1%. The vacancy rate in the light rail corridor is less than the general metropolitan Phoenix area which reported 20.7% vacant space.

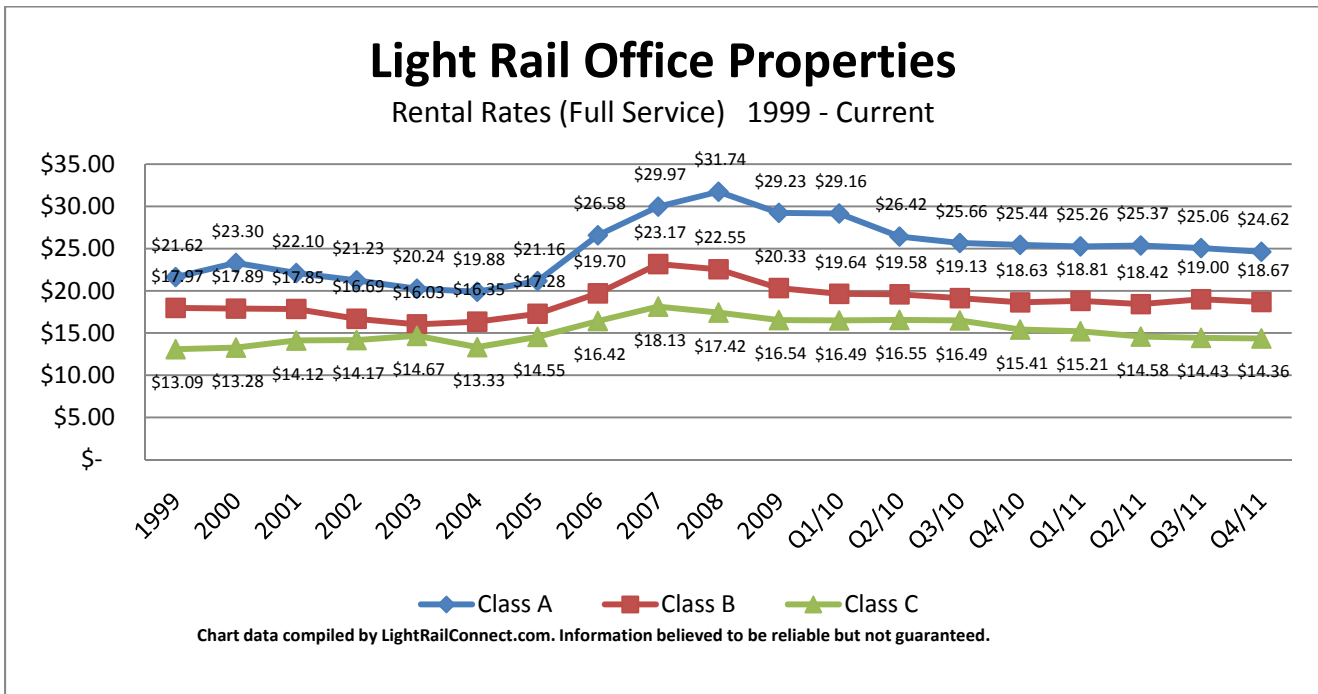


Net Absorption in the light rail corridor was negative (46,411) square feet for the fourth quarter of 2011. Net absorption in the third quarter of 2011 totaled a positive 407,673 square feet.

The Phoenix City submarket reported that absorption for the fourth quarter totaled a negative (48,495) square feet; Tempe reported minimal positive absorption of only 22 SF; Mesa reported a slight absorption this quarter of 2,076 SF. The entire Metro Phoenix area reported a net absorption of positive 620,202 square feet in the fourth quarter. That result compares to a positive 892,173 square feet in the third quarter 2011, and a positive 142,448 square feet in the second quarter 2011.

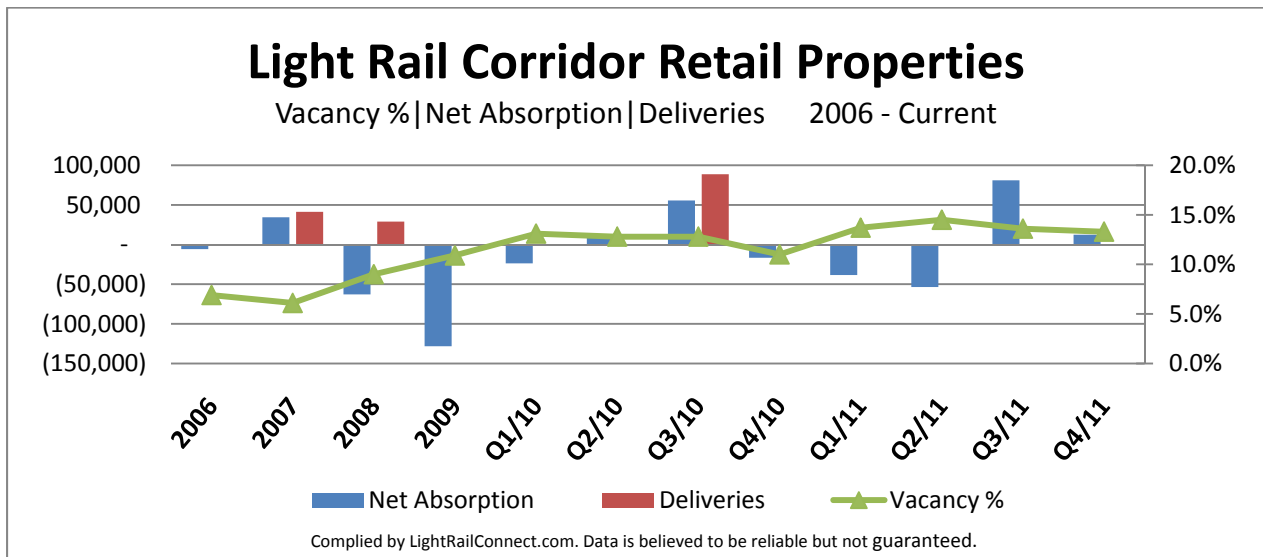
Office lease rates in the light rail corridor have steadily decreased since 2008, and decreased in the fourth quarter of 2011 to an average rate of \$24.62/SF, Class A full service, compared to the average rate in Q3 of \$25.06/SF full service. Class B overall rates were reported at \$18.67/SF, as well as Class C flat at \$14.36/SF. The lowest rates within 0.25 miles from the light rail stations in the first quarter were found in the Mesa submarket at a flat \$10.16/SF. In comparison, the average rental rate for Class A Office in

the metro Phoenix area was at \$23.36/SF, while the average overall rental rate reported in at \$20.47/SF for all classes, near flat from \$20.59/SF in the third quarter.



Retail Market

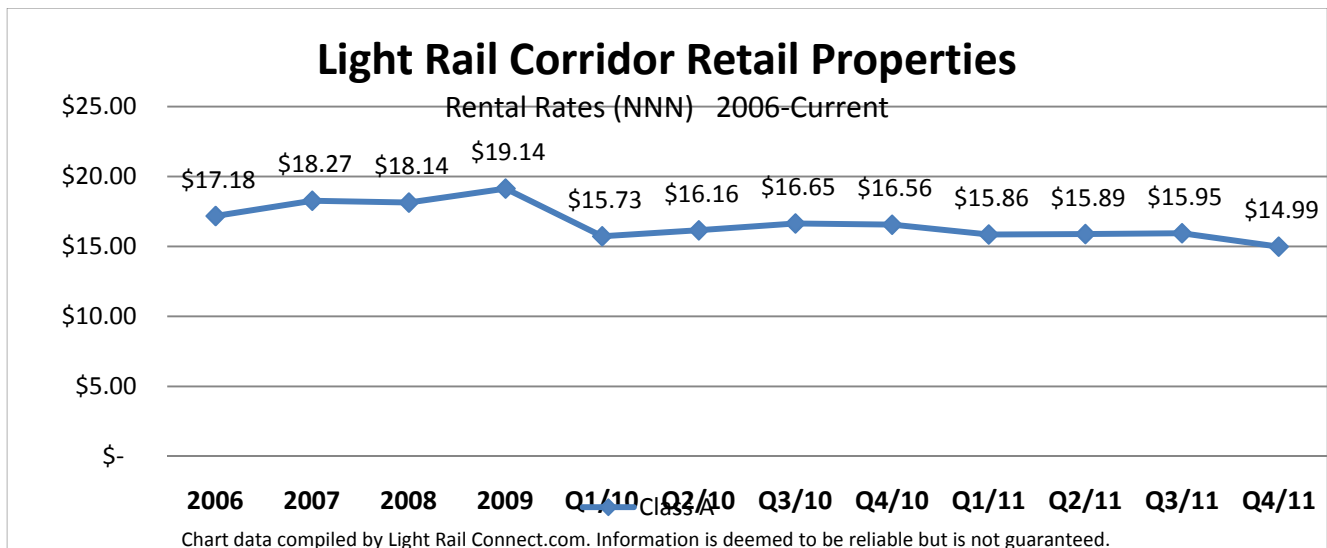
The Light Rail Corridor **retail market vacancy rate** in the fourth quarter of 2011 decreased to 13.3% from 13.6% in Q3; was 14.5%, in Q2; up from 13.7% in Q1, and up from 12.9% in Q4. These are all still increases from 2009 year end vacancy rate of 10.9%. The highest retail vacancy rate was reported in the Phoenix submarket at 15.6% and Mesa at 21.1%. The metro Phoenix area retail vacancy rate was flat in Q4 at 12.1%; Q3 at 12.5%; Q2 at 12.6%; and flat at 12.6% in Q1/11.



Absorption for retail space in the light rail corridor was positive 12,330 square feet in the fourth quarter; and positive 81,004 in the third quarter, compared to a negative (53,502) square feet in the second quarter. The Phoenix submarket reported positive absorption of 29,581 square feet in Q4. The Tempe submarket ended with a positive 16,131 SF; Mesa reported a slight negative (1,120) SF absorption this quarter.

The overall metro Phoenix area market reported positive absorption of 1,072,778 square feet, which has been in a general negative trend since 2009; overall vacancy rate in the Phoenix Metro market in the fourth quarter was 12.1%, down slightly from 12.5% in Q3/11, and has remained relatively flat over the past year.

No retail deliveries within 0.25 miles of a light rail stations were reported in the 4th Quarter 2011.



Rental rates for retail space in the light rail corridor decreased significantly to \$14.99 in Q4/11 from \$15.95 in Q3; \$15.89 in Q2; \$15.86 in Q1/2011, and \$16.07 in Q4/2010. The trend is downward. Quoted rental rates in the Metro Phoenix retail market fell to \$14.74 in Q4, \$15.06 in Q3/11; \$15.80 in Q2/11 and decreased to \$15.78 in Q1/11. We expect this trend of rental rates to decrease or be flat at least in the short term.